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UNCLAS SECTION 01 OF 02 LAGOS 000524

SIPDIS

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TAGS: ECPS ECON EINV NI
SUBJECT: NITEL: NEW MANAGEMENT, LITTLE CHANGE

¶1. (U) Summary: One year into its three-year management of Nigeria's national carrier, Nigerian Telecommunications Limited (NITEL), the Netherlands' Pentascope International has generated surprisingly little change. Executives remain optimistic, but given Pentascope's slow progress in implementing reforms, repairing and expanding fixed line and mobile networks, and strengthening NITEL's balance sheets, that optimism may be misplaced. End summary.

¶2. (U) For months, Pentascope executives have awaited approval of proposed structural reforms. President Obasanjo's mid-November decision to dissolve NITEL's board delayed consideration, and the board's nwest members, appointed January 13, have yet to take a decision. Pentascope's proposal calls for general managers to report directly to NITEL's chief executive (rather than to various executive directors) and for territorial managers to report to NITEL's chief technical officer, a move that would streamline operations and hasten decision-making. NITEL's Lagos Zone General Manager, Segun Oguntoyinbo, believes the proposed reforms would generate "radical change," but he is not optimistic they will be introduced anytime soon. Decisions within NITEL are taken slowly, he says, largely due to the need to win government approval.

¶3. (U) The board's failure to approve reforms may present obstacles to Pentascope's expansion plans. The firm's business plan is ambitious, but progress is slow. The plan estimates capital expenditures at $900 million over three years, calls for the rehabilitation of existing networks, and projects the installation of 600,000 new fixed lines (to bring total installed capacity to 1.3 million lines) and 1.2 million new mobile lines (up from about 120,000 now) by the time Pentascope relinquishes management control. Given the pace of work, it is unlikely NITEL will meet that deadline. The firm has only recently begun rehabilitation efforts, and most observers are skeptical of its ability to meet even the relatively modest target of 150,000 lines per year. Network expansion is behind schedule - managers expected to complete the installation of new mobile lines months ago - and future attempts will likely fall even further behind, not least because contract terms are unrealistically short.

¶4. (U) Oguntoyinbo points out that under a recently awarded contract, Germany's Siemens and China's Huawei Technologies have only nine months to add 250,000 fixed lines to NITEL's Lagos network. It may be virtually impossible to meet that deadline, but delays are nothing new. Plans for 41 new switches have yet to be implemented, and local fixed wireless pilot programs are moving more slowly than expected. According to Oguntoyinbo, NITEL has installed 10,000 fixed wireless lines in each of two locations, but the pilots have yet to generate significant results. If they do, NITEL may elect to abandon fixed lines in favor of fixed wireless networks - the latter are less expensive and suited to both urban and rural areas - but as in everything else, progress may be slow.

¶5. (U) NITEL has performed dismally over the last fourteen years. It boasts only 700,000 fixed lines, of which only 500,000 are even sporadically operational, and provides notoriously poor service. Some 60 percent of calls are never completed, and nearly 180 faults per 100 lines are recorded annually. Pentascope executives hope to increase call completion rates to 95 percent and reduce interruptions to fewer than 50 faults per 100 lines, but improvements have been minor. The firm's balance sheet is weak - federal and state governments, the military, and corporate and individual customers owe nearly $320 million in unpaid fees - and it typically manages to collect only 70 or 80 percent of total annual revenues. Pentascope has recouped $30 million since taking over, but debtors have been slow to settle accounts. Revenue collection may improve with the introduction of pre-paid billing systems for fixed lines, but plans are still being tested.

¶6. (U) Not surprisingly, NITEL has steadily been losing market share to competitors. Lagos now accounts for only 30 percent of NITEL's total revenue, down from 60 percent a few years ago, and customers are steadily leaving NITEL for mobile service providers and private telephone operators. These provide more reliable service at comparable or lower prices, and the ready availability of lines eliminates the months- or years-long wait for NITEL lines. The recent entry of a second national operator, Globacom, will likely increase competition, but Oguntoyinbo believes the Nigerian telecommunications market is large enough to absorb several different players. He "appreciates the challenge" of Globacom's entry but believes NITEL has several advantages over its competitors. The firm's executives know the market, he says, and have the technical expertise and long-standing customer relationships that others lack.

¶7. (U) Oguntoyinbo expects private telephone operators to continue working with NITEL, if only to take advantage of the preferential interconnection fees he expects NITEL to offer. In the meantime, Pentascope executives are doing what they can to retain customers. In mid-December they introduced a 75 percent reduction in NITEL's international tariffs, cutting rates from N99 ($0.73) per minute to N34 ($0.25) per minute in off-peak hours. Executives report a 20 to 25 percent increase in traffic, and many expect the numbers to improve. Oguntoyinbo hopes, if nothing else, that Pentascope will succeed in increasing NITEL's emphasis on customer service. The customer should be king, he says, and NITEL should work to maintain the integrity of its brand.

¶8. (U) Comment: Observers applauded Pentascope's arrival early last year, but the firm has struggled to meet expectations. Some believe its executives found NITEL in a more pronounced state of disrepair than they expected, set unrealistic goals, and are now paying the price. Pentascope's efforts to improve NITEL's infrastructure, expand existing fixed line and mobile networks, and strengthen the firm's balance sheets have been complicated by the necessity of coping with government interference and entrenched bureaucracy. As such, it is perhaps unsurprising that Pentascope's executives have generated relatively little change over the last year. If they continue to make so little progress, it may be some time before NITEL is ready for privatization. Oguntoyinbo believes the GON may sell 15 to 20 percent of its shares in an initial public offering (IPO) later this year, but most observers take such statements lightly. GON officials talked about an IPO in August 2002 and again in November 2003 but delayed the event both times. The process has been botched before, and it will likely be botched again. End comment.

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